

LAPEER DISTRICT LIBRARY

ANNUAL FINANCIAL REPORT
with Supplementary Information

FOR THE YEAR ENDED
DECEMBER 31, 2007

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



LAPEER DISTRICT LIBRARY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lapeer District Library
Lapeer, Michigan

We have audited the accompanying basic financial statements of the Lapeer District Library as of December 31, 2007 and for the year ended. These financial statements are the responsibility of the Lapeer District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lapeer District Library's internal control over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, Marguerite deAngeli Friends of the Library, a nonprofit corporation, is affiliated with the Lapeer District Library as a component unit. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the Library. The financial statements of the Lapeer District Library do not include financial data for the Marguerite deAngeli Friends of the Library. Because of this departure from accounting principles generally accepted in the United States of America, if it were included, total assets and liabilities would increase by \$30,673 and \$0, respectively, as of December 31, 2007, and revenue and expense would increase by \$12,524 and \$5,550 respectively, for the year then ended.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the discretely presented component unit of the Lapeer District Library, Michigan as of December 31, 2007, or the changes in financial position thereof for the year then ended.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position, of the Lapeer District Library, Michigan, as of December 31, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Certified Public Accountants

June 24, 2008

LAPEER DISTRICT LIBRARY

Management's Discussion and Analysis

As management of the Lapeer District Library, we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the year ended December 31, 2007.

USING THIS ANNUAL REPORT:

This annual report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include government-wide financial statements reported on the accrual basis, fund financial statements reported on the modified accrual basis, and notes to the financial statements.

CONDENSED FINANCIAL INFORMATION:

The following table below shows key financial information in a condensed format for the years ended December 31, 2007 and 2006:

STATEMENT OF NET ASSETS

	<u>2007</u>	<u>2006</u>
Assets		
Current Assets	\$ 3,169,428	\$ 2,374,595
Capital Assets, net of depreciation	<u>522,536</u>	<u>610,002</u>
Total Assets	<u>\$ 3,691,964</u>	<u>\$ 2,984,597</u>
Liabilities		
Current Liabilities	\$ 2,006,541	\$ 1,761,167
Non-Current Liabilities	<u>64,800</u>	<u>63,812</u>
Total Liabilities	<u>2,071,341</u>	<u>1,824,979</u>
Net Assets		
Invested in Capital Assets – Net of Related Debt	513,144	598,710
Restricted	52,602	53,171
Unrestricted	<u>1,054,877</u>	<u>507,737</u>
Total Net Assets	<u>1,620,623</u>	<u>1,159,618</u>
Total Liabilities and Net Assets	<u>\$ 3,691,964</u>	<u>\$ 2,984,597</u>

STATEMENT OF ACTIVITIES

Revenue		
Property Taxes	\$ 1,655,596	\$ 1,575,281
Other	<u>501,975</u>	<u>477,781</u>
Total Revenue	<u>2,157,571</u>	<u>2,053,062</u>
Total Expenses	<u>1,696,566</u>	<u>1,979,040</u>
Changes in Net Assets	<u>\$ 461,005</u>	<u>\$ 74,022</u>

THE LIBRARY AS A WHOLE:

- The Library is reporting financial statements this year that meet the requirements of GASB 34.
- The Library's primary source of revenue is from property taxes. For 2007, total tax collections were \$1,655,596. This represents approximately 77% of total revenue.
- Personnel costs represent the largest overall expense of the Library. For 2007, this expense was \$1,032,983, representing 61% of the Library's total expenses.
- Library services of \$379,001 are the second largest overall expenditure of the Library, representing 22% of the Library's total expenses.

FINANCIAL HIGHLIGHTS:

- The assets of the Library exceeded its liabilities at the close of the most recent fiscal year by \$1,620,623 (net assets). Of this amount, \$1,054,877 (unrestricted net assets) may be used to meet the Library's ongoing obligations.
- The Library's total net assets increased by \$461,005 during the year. This is due to the layoffs of nearly 2/3 of the library staff, and reductions in nearly every budget line item for the first nine months of 2007.
- At the end of 2007, unreserved fund balance for the general fund was \$978,826 or 58% of total governmental fund expenditures.

BUDGET & ACTUAL REVENUES & EXPENDITURES:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Actual and Final</u>
Revenues	\$ 2,088,772	\$ 2,157,571	3.29 %
Expenditures	<u>1,593,317</u>	<u>1,608,112</u>	0.93 %
Total	<u>\$ 495,455</u>	<u>\$ 549,459</u>	

There was one set of budget amendments during the year. The most significant amendment was an increase in salaries and fringes due to opening five of the previously closed library branches because of the millage passing in August 2007.

REVENUES

- Penal fines in Lapeer County exceeded estimates, as we budgeted for \$225,000 and realized \$349,988 collected.

EXPENDITURES

- Facilities and equipment reduced due to five of the eight branches being closed for nine months of the year. Telephone expenditures significantly decreased.
- Books and related library materials (library services) were reduced by the unavailability of ordered items, as well as the significant reduction in the use of the US Postal Service to move materials between library facilities.

CAPITAL ASSETS AND DEBT ADMINISTRATION:

As a result of GASB 34 implementation, the library adopted a capitalization policy of \$1000 and an estimated useful life in excess of two years.

The library continued to add new literary materials at all branches, including books, DVDs, audio books, bringing the capital assets value to \$522,536.

In accordance with the Library's personnel policy, individual employees have vested rights upon termination of employment to receive payment for unused vacation. As of December 31, 2007, the vested benefits amounted to \$45,719.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET:

The Lapeer District Library secured the passage of the operational millage on August 7, 2007, with .9 mills for six years.

While 2008's budget forecast looks positive, there are concerns that the nationwide economic slowdown will adversely impact the Library's forecasted revenues. Budgeting has been realistic and conservative while still allowing the Library to grow, provide for the staff, and continue to serve the community.

CONTACTING THE DISTRICT LIBRARY'S FINANCIAL MANAGEMENT:

This financial report is designed to provide our citizens and taxpayers with a general overview of the Library's finances. If you have questions about this report or need additional information, contact the Library Director at Lapeer District Library, 201 Village West Drive S., Lapeer, MI 48446.

BASIC FINANCIAL STATEMENTS

LAPEER DISTRICT LIBRARY

BALANCE SHEET/STATEMENT OF NET ASSETS DECEMBER 31, 2007

	Governmental Fund	Adjustments Note 2	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 1,124,362	\$ -	\$ 1,124,362
Endowments with Community Foundation	101,479	-	101,479
Accounts receivable	655		655
Taxes receivable	1,890,376	-	1,890,376
Due from other governmental units	22,576	-	22,576
Prepaid items	29,980	-	29,980
Capital assets, net of depreciation			
Assets not being depreciated	-	17,000	17,000
Assets being depreciated	-	505,536	505,536
	<u>\$ 3,169,428</u>	<u>522,536</u>	<u>3,691,964</u>
Total Assets			
LIABILITIES			
Accounts payable	\$ 27,741	-	27,741
Accrued payroll and related liabilities	41,183	-	41,183
Unearned revenue	1,937,617	-	1,937,617
Noncurrent liabilities			
Due within one year	-	48,087	48,087
Due in more than one year	-	16,713	16,713
	<u>2,006,541</u>	<u>64,800</u>	<u>2,071,341</u>
Total Liabilities			
FUND BALANCE			
Reserved			
Community Foundation	101,479	(101,479)	-
Prepaid items	29,980	(29,980)	-
External restrictions	52,602	(52,602)	-
Unreserved			
Undesignated	978,826	(978,826)	-
	<u>1,162,887</u>	<u>(1,162,887)</u>	<u>-</u>
Total Fund Balance			
Total Liabilities and Fund Balance	<u>\$ 3,169,428</u>		
NET ASSETS			
Invested in capital assets, net of related debt		513,144	513,144
Restricted		52,602	52,602
Unrestricted		1,054,877	1,054,877
		<u>\$ 1,620,623</u>	<u>\$ 1,620,623</u>
Total Net Assets			

The accompanying notes are an integral part of these financial statements.

LAPEER DISTRICT LIBRARY

STATEMENT OF GOVERNMENTAL REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2007

	Governmental Fund	Adjustments Note 2	Statement of Activities
Revenues:			
Property taxes - operating	\$ 1,655,596	\$ -	\$ 1,655,596
MMLC grants	1,274	-	1,274
State aid - books	49,307	-	49,307
Penal fines	349,988	-	349,988
Fines and fees	3,471	-	3,471
Donations	14,102	-	14,102
Library services	8,497	-	8,497
Interest earned	49,963	-	49,963
Investment earnings - endowment	7,048	-	7,048
Miscellaneous	18,325	-	18,325
	<u>2,157,571</u>	<u>-</u>	<u>2,157,571</u>
Expenditures/Expenses:			
Personnel	1,029,833	3,150	1,032,983
Library services	458,557	(79,556)	379,001
Facilities and equipment	90,166	(2,951)	87,215
Other expenditures	29,556	-	29,556
Depreciation	-	167,811	167,811
	<u>1,608,112</u>	<u>88,454</u>	<u>1,696,566</u>
Revenue over expenditures/expenses	549,459	(88,454)	461,005
Fund Balance/Net Assets at beginning of year	<u>613,428</u>	<u>546,190</u>	<u>1,159,618</u>
Fund Balance/Net Assets at end of year	<u>\$ 1,162,887</u>	<u>\$ 457,736</u>	<u>\$ 1,620,623</u>

The accompanying notes are an integral part of these financial statements.

LAPEER DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting methods and procedures adopted by the Lapeer District Library (the "Library") conform in all material respects to U.S. generally accepted accounting principles as applied to governmental entities. The following Notes to the Financial Statements are an integral part of the Library's financial statements.

A. Reporting Entity –

The Library is governed by an eight member Board of Trustees. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity.

Lapeer District Library has an affiliate, Marguerite deAngeli Friends of the Library, a 501 (c) (3), nonprofit corporation. GASB No. 39 requires a legally separate, tax-exempt organization to be reported as a component unit of the reporting entity if the economic resources are for the direct benefit of the government, or its constituents, the economic resources may be accessed by the government, and the activity is significant to the primary government. Management has elected not to include the Marguerite deAngeli Friends of the Library in the Lapeer District Library financial statements and as a result, the opinion is appropriately qualified.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

The government-wide financial statements (i.e. the Statement of Net Assets and Statement of Activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources, as they are needed.

C. Assets, Liabilities, and Net Assets or Equity –

Cash and Cash Equivalents – The Library's cash and cash equivalents are cash on hand, demand deposits, pooled funds and certificates of deposits with original maturities of three months or less from the date of acquisition.

Receivables – All receivables are shown net of allowances for uncollectible amounts.

Prepaid Items – Certain payments to vendors reflect cost applicable to future fiscal years and are recorded as prepaid expenditures.

LAPEER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Capital Assets – Are reported in the government-wide statements. Capital assets are defined by the Library as assets with an initial individual cost of \$1,000 or more and an estimated useful life in excess of two years with the exception of Library materials, which are reported as capital asset additions despite the individual cost threshold. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives:

Building	50
Improvements	5-15
Equipment and vehicles	5
Library books, periodicals and videos	3

Accrued Vacation and Sick Pay – In accordance with the Lapeer District Library personnel policy, individual employees have vested rights upon termination of employment to receive payment for unused vacation. All sick and vacation pay is accrued when incurred in the government-wide financial statements.

Deferred Revenues – In both the government-wide statements and in the fund (modified accrual) financial statements revenues received or recorded before it is earned is recorded as deferred revenue.

Fund Equity – The fund (modified accrual) statements report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subject to change.

Estimates – In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

- A. Explanation of differences between the fund (modified accrual) balance sheet and the government-wide statement of net assets (Page 5).

Fund Balance	\$ 1,162,887
Capital assets used in the modified accrual activities which are not financial resources and therefore are not reported in the fund statements	
Add – capital assets	3,368,547
Deduct – accumulated depreciation	(2,846,011)

LAPEER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - (cont'd):

Long-term accrued vacation and sick time that are not due in the current period, therefore, not reported in the fund (modified accrual) activities	\$(45,719)
Long-term liabilities not due in the current period, therefore, not reported in the fund (modified accrual) activities	
Special assessment	(9,689)
Capital lease	(9,392)
Net Assets	<u>\$ 1,620,623</u>

- B.** Explanation of differences between the fund (modified accrual) statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities (Page 6).

Net changes in fund balance – modified accrual	\$ 549,459
The fund (modified accrual) statements report capital outlay as expenditures; however, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense	
Add – capital outlay	80,345
Deduct – depreciation	(167,811)
Accrued vacation and sick time expenses reported in the fund (modified accrual) statement because they are reported when paid, not when earned	(3,150)
The issuance of long-term debt provides current financial resources to governmental funds while the repayment of the principal consumes the current financial resources. Neither transaction, however, has any effect on net assets	
Special assessment	262
Capital lease	<u>1,900</u>
Change in Net Assets	<u>\$ 461,005</u>

LAPEER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

The Library's budget is prepared on the accrual basis of accounting and approved by the Board prior to the start of the year. After the budget is adopted, all amendments must be approved by the Library Board.

The Library's approved budget was adopted at the account level and control was exercised at that level. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act and the level requiring amendment approval by the District Library Board.

Expenditures at this legally adopted level in excess of the amount budgeted are a violation of the Budgeting Act. Expenditures in excess of the amount appropriated are as follows:

<u>Activity/Amount</u>	<u>Total Appropriation</u>	<u>Amount Expended</u>	<u>Budget Variance</u>
Personnel -			
Salaries and wages	\$ 684,411	\$ 730,219	\$ 45,808
Fringe benefits	264,729	293,875	29,146
Library Services -			
Books	70,000	73,676	3,676
Computer automation	11,000	12,115	1,115
Transfer to other districts	171,268	177,060	5,792
Facilities and Equipment -			
Maintenance – building and grounds	6,500	6,520	20
Other Expenditures –			
Office supplies	10,000	10,272	272
Community promotion	4,600	4,689	89
Miscellaneous	1,835	9,714	7,879

NOTE 4 - DEPOSITS AND INVESTMENTS:

As of December 31, 2007, the carrying amount of the cash and investments is as follows:

Petty Cash	\$ 486
Deposits with Financial Institutions – Checking Account	201,799
Investment Trust Fund	<u>922,077</u>
Total cash and cash equivalents	<u>\$ 1,124,362</u>

LAPEER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (cont'd):

Deposits -

The Library's investment policy and Act 217 PA 1982, as amended, authorize the Library to deposit in certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

Custodial Credit Risk - Deposits – is the risk that in the event of a bank failure, the Library's deposits may not be returned. As an indication of the level of deposit custodial credit risk assumed by the Library, as of December 31, 2007, the bank balance of the Library's deposits was \$223,833, of which \$100,000 is covered by FDIC insurance. The remaining balance of \$123,833 is uninsured and not collateralized. The Library's investment policy does not address custodial credit risk.

Investments –

Act 20 PA 1994, as amended, authorizes the Library to invest its surplus funds in bonds, securities and other direct obligations of the United States or an agency or instrumentality of the United States; in commercial paper rated at the time of purchase within the two (2) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase; in the United States government or federal agency obligations repurchase agreements; in bankers acceptances of United States banks; in obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service; in obligations described in subdivision (a) through (f), as named above if purchased through an interlocal agreement under the Urban Cooperation Act of 1967 PA 7, MCL 124.501 to 124.512; in Investment pools organized under the Surplus Funds Investment Act, 1982 PA 367, 129.111 to 129.118; in mutual funds registered under the Investment Company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

Custodial Credit Risk – Investments – is the risk that in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments that are in possession of another party.

The Library at December 31, 2007 held \$922,077 in an investment trust fund that is not evidenced by securities that exist in physical or book entry form. The investment trust fund has been reported in the financial statements as cash equivalents because it has the general characteristics of demand deposit accounts in that the Library may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty. The investment trust fund is reported at cost, which approximates fair value. The investment trust fund received a rating of F1 by Fitch and a rating of A1 by Moody's with an average days to maturity of 21 as of December 31, 2007. The investment trust fund invests primarily in repurchase agreements, commercial paper and U.S. Treasury securities.

LAPEER DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (cont'd):

Interest Rate Risk – is the risk that the market value of securities of the Library’s portfolio will fall due to changes in the market interest rates. The Library’s investment policy does not address interest rate risk.

Credit Risk – is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State laws limit the types of investment and “grades” of investments that the Library can purchase. The Library’s investment policy does not further limit these types.

Concentration of Credit Risk – is the risk of loss attributed to the magnitude of the Library’s investment in a single issuer. The only restriction in the Library’s investment policy is that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

NOTE 5 - ENDOWMENTS WITH COMMUNITY FOUNDATION:

The Library has two separate endowment funds that are administered by the Community Foundation of Greater Flint. One endowment fund was established for the benefit of the District Library and the other for the benefit of the Marguerite deAngeli Branch. Both endowment funds had original contributions from the District Library with additional contributions from individuals. Both Endowment funds are subject to variance power of the Foundation, which charges an administrative fee and operates under a spending policy agreed to by the Library.

The contributions to the endowment funds by the Library are considered funds of the Library and recorded on its balance sheet. The contributions to the Endowment Funds from individuals are a component fund of the Foundation.

The following are the balances at December 31, 2007:

	Library Gifts	Designated Gifts
District Library	\$ 78,588	\$ 2,557
Marguerite de Angeli Branch	<u>22,891</u>	<u>10,951</u>
	<u>\$ 101,479</u>	<u>\$ 13,508</u>

NOTE 6 - PROPERTY TAXES AND TAXES RECEIVABLE:

The Lapeer District Library’s border’s encompass all of the municipalities of the City of Lapeer and townships of Arcadia, Burlington, Burnside, Deerfield, Elba, Goodland, Hadley, Lapeer, Marathon, Mayfield, Metamora, Oregon and Rich. Properties in each government unit are levied each December 1, on the taxable valuation of property located in the municipality as of the preceding December 31. On December 1, the property tax attachment is an enforceable lien on property and becomes delinquent after February 14th.

Although the County’s 2007 ad valorem tax is levied and collectible on December 1, it is the Library’s policy to recognize in governmental fund types revenues from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of Library operations. The property taxes levied at December 1, are accrued as current taxes receivable with the appropriated deferral and are budgeted as revenue in the subsequent year. Taxes receivable at December 31, 2007 is \$1,890,376.

LAPEER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007

NOTE 6 - PROPERTY TAXES AND TAXES RECEIVABLE - (cont'd):

Assessed values are established annually by the County and are equalized by the State at an estimated percentage of the current market value. A taxable value is established on which taxes are calculated. Real and personal property in the City and Townships for the 2007 and 2006 levies have a taxable value of \$2,161,328,689 and \$2,064,743,574, respectively. The millage rate was .9000 and .8131, respectively.

NOTE 7 - CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

	Jan. 1, 2007 <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	Dec. 31, 2007 <u>Balance</u>
Capital assets not being depreciated –				
Land	\$ 17,000	\$ -	\$ -	\$ 17,000
Capital assets being depreciated –				
Buildings and building improvements	385,561	-	-	385,561
Land improvements	22,515	-	-	22,515
Equipment	295,659	2,951	-	298,610
Vehicles	17,486	-	-	17,486
Books, periodicals and videos	<u>2,631,044</u>	<u>77,394</u>	<u>(81,063)</u>	<u>2,627,375</u>
	<u>3,352,265</u>	<u>80,345</u>	<u>(81,063)</u>	<u>3,351,547</u>
Less accumulated depreciation for –				
Buildings and building improvements	133,606	7,236	-	140,842
Land improvements	21,339	84	-	21,423
Equipment	228,428	31,835	-	260,263
Vehicles	15,737	1,749	-	17,486
Books, periodicals and videos	<u>2,360,153</u>	<u>126,907</u>	<u>(81,063)</u>	<u>2,405,997</u>
	<u>2,759,263</u>	<u>167,811</u>	<u>(81,063)</u>	<u>2,846,011</u>
Net capital assets being depreciated	<u>593,002</u>	<u>(87,466)</u>	<u>-</u>	<u>505,536</u>
Total capital assets net of depreciated	<u>\$ 610,002</u>	<u>\$(87,466)</u>	<u>\$ -</u>	<u>\$ 522,536</u>

NOTE 8 - LONG-TERM LIABILITIES:

The following is a summary of the changes in long-term liabilities of the Library for the year ended December 31, 2007:

	Balance January 1, 2007	<u>Additions</u>	<u>Reductions</u>	Balance December 31, 2007	Due Within One Year
Special assessment debt	\$ 9,951	\$ -	\$ 262	\$ 9,689	\$ 262
Accrued vacation	42,569	3,150	-	45,719	45,719
Capital Lease	<u>11,292</u>	<u>-</u>	<u>1,900</u>	<u>9,392</u>	<u>2,106</u>
	<u>\$ 63,812</u>	<u>\$ 3,150</u>	<u>\$ 2,162</u>	<u>\$ 64,800</u>	<u>\$ 48,087</u>

Interest expense for the year was \$1,623.

LAPEER DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 8 - LONG-TERM LIABILITIES - (cont'd):

In accordance with the Library's personnel policy, individual employees have vested rights upon termination of employment to receive payment for unused vacation. As of December 31, 2007, the vested benefits amounted to \$45,719.

During 2005, the Library received notification of a special assessment district established for sewer improvements in the Village of Otter Lake. The assessment requires 40 annual payments at 5.5% beginning July 1, 2005. The Library's Otter Lake branch has been assessed a total amount due of \$10,475. The remaining balance as of December 31, 2007 is \$9,689.

During 2006, the Library leased two new copy machines that meet the requirements of a capital lease. The minimum annual payments for the capital lease are summarized in Note 9.

Annual requirements to pay principal and interest on the outstanding debt are as follows:

Year Ending December 31,	Special Assessment	
	Principal	Interest
2008	\$ 262	\$ 533
2009	262	518
2010	262	504
2011	262	490
2012	262	475
2013-2017	1,310	2,161
2018-2022	1,310	1,800
2023-2027	1,310	1,441
2028-2032	1,310	1,080
2033-2037	1,310	720
2038-2042	1,310	360
2043-2044	<u>519</u>	<u>43</u>
	<u>\$ 9,689</u>	<u>\$ 10,125</u>

NOTE 9 - CAPITAL LEASE:

The Library has entered into a lease purchase agreement to finance the acquisition of two copy machines. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of inception.

Commitment under the lease agreement provides for minimum annual payments as follows:

Year Ending December 31,	
2008	\$ 2,976
2009	2,976
2010	2,976
2011	<u>2,481</u>
Total minimum lease payments	11,409
Less – amounts representing interest	(<u>2,017</u>)
Present value of minimum lease payments	<u>\$ 9,392</u>

Capital assets purchased through capital leases have an initial cost of \$11,643 and an accumulated depreciation at December 31, 2007 of \$3,493.

LAPEER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007

NOTE 10 - EMPLOYEE PENSION PLAN:

Plan Description -

The Lapeer District Library participates in the Michigan Municipal Employees Retirement System (MERS); an agent multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The Library is required to contribute at an actuarially determined rate. The computed employer contribution rate for 2007 was 12.48%. The contribution requirements of plan members and the Library are established and may be amended by the Library Board, depending on the MERS contribution program adopted by the Library.

Annual Pension Costs -

For the year ended December 31, 2007 the Library's annual pension cost of \$84,284 for MERS was equal to the Library's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from .3% to 8.4%, depending on age, attributable to seniority/merit, (d) the assumption that withdrawal rules will decrease with the increase in the years of service, and (3) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit B-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years.

LAPEER DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007

NOTE 10 - EMPLOYEE PENSION PLAN - (cont'd):

<u>Year Ending December 31,</u>	<u>Annual Pension Costs (APC)</u>	<u>Percentage of APC Contribution</u>	<u>Net Pension Obligation</u>
2005	\$ 121,479	100%	-
2006	92,447	100	-
2007	84,284	100	-

Schedule of Funding Progress

<u>Valuation Date</u>	<u>Actuarial Value of of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)</u>	<u>Funded Ratio (AAL) (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll (b-a)/(c)</u>
2004	\$ 1,823,390	\$ 2,655,184	\$ 831,794	69%	\$ 821,326	101%
2005	2,086,401	3,026,941	940,540	69	776,270	121
2006	2,306,941	3,274,850	967,909	70	816,687	119

NOTE 11 - RISK MANAGEMENT:

The Library is a voluntary member of the Michigan Municipal Risk Management Authority established pursuant to PA 35 of 1951 of the State of Michigan which authorize local units of government to exercise jointly any power, privilege or authority which each might exercise separately. The Authority administers a risk management fund providing the Library with loss protection for liability, vehicle physical damage, and property and crime coverage.

The Library is responsible to pay all costs, including damages, indemnification, and allocated loss adjustment expense for each occurrence that is within the Member's Self Insurance Retention. The Library's Self Insurance Retention and deductible are as follows:

<u>Coverage</u>	<u>Deductible</u>	<u>Self Insured</u>
Liability	None	State Pool Member
Vehicle physical damage	250/Vehicle	State Pool Member
Property and crime	250/Occurrence	State Pool Member

The Library has limits to coverage on an occurrence basis and must be paid first from the Library's Self Insured Retention. The most the MMRMA will pay is its Self Insured Retention obligation.

The Library continues to carry commercial insurance for employee health and accident insurance and workers compensation insurance. The amount of settlements (claims) for the past three years have not exceeded insurance coverage.

REQUIRED SUPPLEMENTARY INFORMATION

LAPEER DISTRICT LIBRARY

STATEMENT OF GOVERNMENTAL REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2007

	Original Budget	Final Budget	General Operations	Actual External Restrictions
Revenues:				
Property taxes - operating	\$ 1,764,292	\$ 1,764,292	\$ 1,655,596	\$ -
MMLC grant	-	-	1,274	-
State aid - books	49,504	49,504	49,307	-
Penal fines	225,000	225,000	349,988	-
Fines and fees	3,000	3,000	3,471	-
Donations	21,476	21,476	66	14,036
Library services	11,000	11,000	8,497	-
Interest earned	5,500	5,500	49,963	-
Investment earnings - endowment	-	-	7,048	-
Miscellaneous	9,000	9,000	18,325	-
	<u>2,088,772</u>	<u>2,088,772</u>	<u>2,143,535</u>	<u>14,036</u>
Expenditures:				
Personnel -				
Salaries and wages	553,701	684,411	730,219	-
Fringe benefits	256,358	264,729	293,875	-
Mileage reimbursement	1,001	1,800	1,789	-
Training	1,700	4,000	3,950	-
Total Personnel	<u>812,760</u>	<u>954,940</u>	<u>1,029,833</u>	<u>-</u>
Library Services -				
Contractual services	138,170	185,170	183,822	-
Books	40,000	70,000	67,979	5,697
Periodicals and AV materials	7,000	11,500	9,415	1,544
Memberships	25,787	25,787	925	-
Computer automation	10,600	11,000	12,115	-
Transfer to other districts	171,268	171,268	177,060	-
Total Library Services	<u>392,825</u>	<u>474,725</u>	<u>451,316</u>	<u>7,241</u>
Facilities and Equipment -				
Rent	4,600	4,600	4,522	-
Maintenance - building and grounds	3,300	6,500	6,520	-
Maintenance - vehicles and equipment	2,100	2,900	2,530	-
Supplies building and grounds	3,080	7,080	7,009	-
Utilities	36,022	36,022	34,888	-
Insurance	16,396	16,396	16,225	-
Telephone	67,675	67,675	18,472	-
Total Facilities and Equipment	<u>133,173</u>	<u>141,173</u>	<u>90,166</u>	<u>-</u>

<u>Total</u>	<u>Variance with Final Budget Positive (Negative)</u>
\$ 1,655,596	\$ (108,696)
1,274	1,274
49,307	(197)
349,988	124,988
3,471	471
14,102	(7,374)
8,497	(2,503)
49,963	44,463
7,048	7,048
18,325	9,325
<u>2,157,571</u>	<u>68,799</u>

730,219	(45,808)
293,875	(29,146)
1,789	11
3,950	50
<u>1,029,833</u>	<u>(74,893)</u>

183,822	1,348
73,676	(3,676)
10,959	541
925	24,862
12,115	(1,115)
177,060	(5,792)
<u>458,557</u>	<u>16,168</u>

4,522	78
6,520	(20)
2,530	370
7,009	71
34,888	1,134
16,225	171
18,472	49,203
<u>90,166</u>	<u>51,007</u>

Continued

LAPEER DISTRICT LIBRARY

STATEMENT OF GOVERNMENTAL REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2007

	Original Budget	Final Budget	General Operations	Actual External Restrictions
Expenditures, cont.				
Other Expenditures -				
Postage	\$ 4,005	\$ 5,005	\$ 4,740	\$ -
Office supplies	6,000	10,000	10,272	-
Community promotion	3,546	4,600	4,689	-
Printing and publishing	1,039	1,039	141	-
Miscellaneous	200	1,835	2,350	7,364
Total Other Expenditures	<u>14,790</u>	<u>22,479</u>	<u>22,192</u>	<u>7,364</u>
Total Expenditures	<u>1,353,548</u>	<u>1,593,317</u>	<u>1,593,507</u>	<u>14,605</u>
Revenue over (under) expenditures	735,224	495,455	550,028	(569)
Fund Balance beginning of year	<u>486,931</u>	<u>461,124</u>	<u>560,257</u>	<u>53,171</u>
Fund Balance end of year	<u>\$ 1,222,155</u>	<u>\$ 956,579</u>	<u>\$ 1,110,285</u>	<u>\$ 52,602</u>

<u>Total</u>	<u>Variance with Final Budget Positive (Negative)</u>
\$ 4,740	\$ 265
10,272	(272)
4,689	(89)
141	898
9,714	(7,879)
<u>29,556</u>	<u>(7,077)</u>
 1,608,112	 <u>(14,795)</u>
549,459	54,004
<u>613,428</u>	<u>152,304</u>
<u><u>\$ 1,162,887</u></u>	<u><u>\$ 206,308</u></u>

Concluded



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Lapeer District Library

We have audited the financial statements of the governmental activities of the Lapeer District Library as of and for the year ended December 31, 2007, and have issued our report thereon dated June 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lapeer District Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lapeer District Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below we identified a certain deficiency in internal control over financial reporting that we considered to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described as follows to be a significant deficiency in internal control over financial reporting:

Preparation of Financial Statements In Accordance with Generally Accepted Accounting Principles.

Management routinely prepares internal financial information to assess operations and the financial position of the Library on an ongoing basis. Although the internal financial information is sufficient to operate the Library, it is not presented in accordance with generally accepted accounting principles. The Library contracts with us, the auditors, to propose journal entries for conversion to the modified accrual basis of accounting and for the GASB 34 presentation, along with drafting the financial statements, including all necessary notes, in accordance with generally accepted accounting principles.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lapeer District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, non compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.

This report is intended solely for the information and use of management, the District Library Board, and others within the Lapeer District Library, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Stewart, Beauvais Whipple".

Certified Public Accountants,

June 24, 2008